

Name _____ Date _____

ANSWERS TO CHAPTER 6 REVIEW EXERCISES (text p. 199)

Using Your Knowledge

Exercise 1, p. 199

Complete the following summary.

| Nature of Transaction | Source Document(s) | Required Journal Entry | |
|----------------------------------|---|--|--|
| | | Accounts Debited | Accounts Credited |
| Payment on account | • <i>cheque copy</i> | <i>Accounts Payable</i> | <i>Bank</i> |
| Sale on account | • <i>sales invoice</i> | <i>Accounts Receivable</i> | <i>Sales</i> <i>GST Payable</i> <i>PST Payable</i> |
| Bank service charge | • <i>bank debit advice</i> • <i>bank statement</i> | <i>Bank Charges</i> | <i>Bank</i> |
| Cash payment of phone bill | • <i>cheque copy</i> • <i>telephone bill</i> | <i>Telephone Expense</i> <i>GST Recoverable</i> | <i>Bank</i> |
| Cash received on account | • <i>daily summaries</i> • <i>cash receipts list</i> | <i>Bank</i> | <i>Accounts Receivable</i> |
| Purchase of equipment on account | • <i>purchase invoice</i> | <i>Equipment</i> <i>GST Recoverable</i> | <i>Accounts Payable</i> |
| Cash sale | • <i>cash sales slips</i> • <i>POS summaries</i> | <i>Bank</i> | <i>Sales</i> <i>GST Payable</i> <i>PST Payable</i> |

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ANSWERS TO CHAPTER 6 REVIEW EXERCISES (cont.)

Exercise 2, p. 199

| Source Document | Document Number | Transactions | Document Number |
|-----------------------|-----------------|--|-----------------|
| Bank credit memo | 1 | 1. Owner withdraws money. | 3, 8 |
| Bank debit memo | 2 | 2. Purchase of equipment on account. | 6 |
| Cheque copy | 3 | 3. Payment on account. | 3 |
| Cash sales slip | 4 | 4. Cash sale. | 4 |
| Sales invoice | 5 | 5. Sale on account. | 5 |
| Purchase invoice | 6 | 6. Cheques received from customers on account. | 7 |
| Cash receipts list | 7 | 7. Increase bank loan. | 1, 8, 9 |
| Owner's written memo. | 8 | 8. Owner invests additional money in the business. | 8 |
| Bank statement | 9 | 9. Bank service charge. | 2, 9 |

Exercise 3, p. 200

Indicate whether each of the following statements is true or false by placing a "T" or an "F" in the box provided. Explain the reason for each "F" response in the space provided.

- | | |
|---|---|
| A. Anyone in the business can initiate a business transaction. | <div style="border: 1px solid black; padding: 2px; text-align: center;">F</div> |
| B. Every journal entry is based on a source document. | <div style="border: 1px solid black; padding: 2px; text-align: center;">T</div> |
| C. The only purpose of source documents is to provide the basis for a journal entry. | <div style="border: 1px solid black; padding: 2px; text-align: center;">F</div> |
| D. A business that sells to its customers on a cash basis does not normally use a sales invoice. | <div style="border: 1px solid black; padding: 2px; text-align: center;">T</div> |
| E. Journal entries for all cash sales slips are essentially the same. | <div style="border: 1px solid black; padding: 2px; text-align: center;">T</div> |
| F. Sales invoices are used by businesses that make most of their sales on account. | <div style="border: 1px solid black; padding: 2px; text-align: center;">T</div> |
| G. For every sales invoice, there is a debit to an account receivable. | <div style="border: 1px solid black; padding: 2px; text-align: center;">T</div> |
| H. The transaction log that is produced by a POS terminal is used by an accounting clerk to record a debit to Bank and a credit to Sales. | <div style="border: 1px solid black; padding: 2px; text-align: center;">T</div> |
| I. Every sales invoice is also a purchase invoice. | <div style="border: 1px solid black; padding: 2px; text-align: center;">T</div> |
| J. The debit entry for every purchase invoice is always the same. | <div style="border: 1px solid black; padding: 2px; text-align: center;">F</div> |
| K. The supporting document for a payment on account is the tear-off portion of a cheque. | <div style="border: 1px solid black; padding: 2px; text-align: center;">F</div> |
| L. The credit entry for every cheque copy payment is always the same. | <div style="border: 1px solid black; padding: 2px; text-align: center;">T</div> |
| M. Cheques received are considered to be cash received. | <div style="border: 1px solid black; padding: 2px; text-align: center;">T</div> |
| N. The bank has no right to make deductions from the accounts of its customers. | <div style="border: 1px solid black; padding: 2px; text-align: center;">F</div> |
| O. We debit Bank when we receive a bank debit memo. | <div style="border: 1px solid black; padding: 2px; text-align: center;">F</div> |
| P. The cost principle states that every asset acquired is to be recorded at its cost price. | <div style="border: 1px solid black; padding: 2px; text-align: center;">T</div> |

Name _____ Date _____

ANSWERS TO CHAPTER 6 REVIEW EXERCISES (cont.)

Exercise 3 (cont.)

- Q. The best objective evidence of a purchase is a purchase invoice received from an independent supplier.
- R. Only provincial governments are allowed to levy retail sales taxes.
- S. The purchaser of goods or services is required to make accounting entries for provincial sales tax.
- T. The PST account is an expense account.

T

F

F

F

Explanations for "F" Responses:

- A. Only certain persons are authorized to initiate business transactions.
- C. Source documents are also used for reference purposes.
- J. The account debited depends on what was purchased.
- K. The supporting document is the cheque copy.
- N. At the time the account is opened, the customer signs a form that allows the bank to make deductions as necessary.
- O. We do the opposite to what the bank does because to us Bank is an asset, but to the bank our account is a liability. So, when we get a debit memo from the bank, we credit Bank.
- R. The federal government of Canada also levies sales taxes.
- S. It is the responsibility of the seller, by law, to do the accounting for sales tax.
- T. The PST account is a liability account.

Exercise 4, p. 200 Comprehensive Exercise

| \$600 Purchase | | | | |
|---------------------------|------------|------------|------------|--------------------|
| | PST | GST | HST | Total Price |
| Alberta | — | \$42.00 | — | \$642.00 |
| Manitoba | \$42.00 | \$42.00 | — | \$684.00 |
| Newfoundland and Labrador | — | — | \$90.00 | \$690.00 |
| Ontario | \$48.00 | \$42.00 | — | \$690.00 |
| Quebec | \$45.00 | \$42.00 | — | \$687.00 |
| Saskatchewan | \$36.00 | \$42.00 | — | \$678.00 |

Date _____

ANSWERS TO CHAPTER 6 REVIEW EXERCISES (cont.)

Exercise 5, p. 201 Comprehensive Exercise

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ANSWERS TO CHAPTER 6 REVIEW EXERCISES (cont.)

Exercise 5 (cont.)

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ANSWERS TO CHAPTER 6 REVIEW EXERCISES (cont.)

Exercise 6 (cont.)

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ANSWERS TO CHAPTER 6 REVIEW EXERCISES (cont.)

Exercise 7, p. 203 Comprehensive Exercise

A.

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| DATE | | PARTICULARS | P.R. | DEBIT | | | | CREDIT | | | |
|-------------|----|-----------------------------|------|-------|---|---|------|--------|---|------|----|
| 20— Mar. | 3 | A/R—Mountain Distributors | | 2 | 0 | 1 | 25 | | | | |
| | | Fees Revenue | | | | | | 1 | 7 | 5 | — |
| | | GST Payable | | | | | | | 1 | 2 | 25 |
| | | PST Payable | | | | | | | 1 | 4 | — |
| | | Sales Invoice #192 | | | | | | | | | |
| | 4 | A/R—Old Fort Trading Co. | | 3 | 4 | 5 | — | | | | |
| | | Fees Revenue | | | | | | 3 | 0 | 0 | — |
| | | GST Payable | | | | | | | 2 | 1 | — |
| | | PST Payable | | | | | | | 2 | 4 | — |
| | | Sales Invoice #193 | | | | | | | | | |
| | 4 | Car Expense | | 1 | 1 | 5 | — | | | | |
| | | GST Recoverable | | | | 8 | 05 | | | | |
| | | Bank | | | | | | 1 | 2 | 3 | 05 |
| | | Cheque #316 for car repairs | | | | | | | | | |
| | 6 | Utilities Expense | | 6 | 5 | — | | | | | |
| | | GST Recoverable | | | | 4 | 55 | | | | |
| | | Bank | | | | | | 6 | 9 | 55 | |
| | | Cheque #317 | | | | | | | | | |
| | 10 | Equipment | | 4 | 7 | 5 | — | | | | |
| | | GST Recoverable | | | | 3 | 3 25 | | | | |
| | | A/P—C. & C. Equipment | | | | | | 5 | 0 | 8 25 | |
| | | Metal drawing table | | | | | | | | | |
| | 10 | Art Supplies | | 8 | 5 | — | | | | | |
| | | GST Recoverable | | | | 5 | 95 | | | | |
| | | Bank | | | | | | 9 | 0 | 95 | |
| | | Cheque #318 | | | | | | | | | |

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ANSWERS TO CHAPTER 6 REVIEW EXERCISES (cont.)

Exercise 7 (cont.)

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| DATE | | PARTICULARS | P.R. | DEBIT | | | | CREDIT | | | |
|-------------|----|---------------------------------|------|-------|---|----|----|--------|---|----|----|
| 20— Mar. | 13 | Cheri Ohashi, Drawings | | 3 | 5 | 0 | — | | | | |
| | | Bank | | | | | | 3 | 5 | 0 | — |
| | | Cheque #319 for personal use | | | | | | | | | |
| | 14 | AIR—Display Design Company | | 2 | 9 | 3 | 25 | | | | |
| | | Fees Revenue | | | | | | 2 | 5 | 5 | — |
| | | GST Payable | | | | | | 1 | 7 | 85 | |
| | | PST Payable | | | | | | 2 | 0 | 40 | |
| | | Sales Invoice #194 | | | | | | | | | |
| | 14 | Bank | | 1 | 5 | 0 | — | | | | |
| | | AIR—Victor Schilling | | | | | | 1 | 5 | 0 | — |
| | | Received on account | | | | | | | | | |
| | 17 | AIP—C. & C. Equipment | | 5 | 0 | 8 | 25 | | | | |
| | | Bank | | | | | | 5 | 0 | 8 | 25 |
| | | Cheque #320 on account | | | | | | | | | |
| | 19 | AIR—Scoville Sales | | 2 | 7 | 0 | 25 | | | | |
| | | Fees Revenue | | | | | | 2 | 3 | 5 | — |
| | | GST Payable | | | | | | 1 | 6 | 45 | |
| | | PST Payable | | | | | | 1 | 8 | 80 | |
| | | Sales Invoice #195 | | | | | | | | | |
| | 20 | Rent Expense | | 3 | 7 | 5 | — | | | | |
| | | GST Recoverable | | 2 | 6 | 25 | | | | | |
| | | Bank | | | | | | 4 | 0 | 1 | 25 |
| | | Cheque #321 | | | | | | | | | |
| | 23 | Equipment | | 2 | 1 | 5 | — | | | | |
| | | GST Recoverable | | 1 | 5 | 05 | | | | | |
| | | AIP—Loughery's Limited | | | | | | 2 | 3 | 0 | 05 |
| | | Drafting and artist's equipment | | | | | | | | | |

Name _____ Date _____

ANSWERS TO CHAPTER 6 REVIEW EXERCISES (cont.)


Exercise 7 (cont.)

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| DATE | PARTICULARS | P.R. | DEBIT | CREDIT |
|----------------|--------------------------|------|---------|---------|
| 20— Mar. 25 | Telephone Expense | | 2 8 50 | |
| | GST Recoverable | | 2 — | |
| | Bank | | | 3 0 50 |
| | Cheque #322 | | | |
| 27 | Car Expense | | 7 1 40 | |
| | GST Recoverable | | 5 — | |
| | A/R—Esso | | | 7 6 40 |
| | Gas and oil | | | |
| 31 | Bank | | 3 0 0 — | |
| | A/R—Old Fort Trading Co. | | | 3 0 0 — |
| | Received on account | | | |

B.

| | | | | | |
|---|----------|---|---|--------------------------------------|----------------------------|
|  Canada Customs and Revenue Agency Agence des douanes et du revenu du Canada | | GST/HST RETURN (NON-PERSONALIZED) | | 001800 | Part 2 GST62-5 E |
| YOU MUST COMPLETE THIS AREA. | | | | | |
| Business Number | | Reporting period From: Year Month Day 2 0 0 1 0 3 0 1 To: Year Month Day 2 0 0 1 0 4 0 3 | | | |
| Sales and other revenue 101 | 9,650.00 | | Total GST/HST and adjustments for period 105 | 6,75.55 | |
| Instalments and net tax already remitted 110 | | | Total ITCs and adjustments 108 | 1,001.00 | |
| Rebates 111 | | | Net tax 109 | -3,25.55 | |
| GST/HST due on acquisition of taxable real property 205 | | | Refund claimed 114 | 3,25.55 | |
| Other GST/HST to be self-assessed 405 | | | Payment enclosed 115 | | |
| I certify that the information given in this return and in any attached documents is, to the best of my knowledge, true, correct and complete in every respect, and that I am the person required to file this return, or that I am authorized to sign on behalf of the person. It is a serious offence to make a false return. | | | | | |
| | | | | Cheri Ohaski Authorized Signature | 04, 04, 30 Date |
| 1 2 2 0 1 1 7 1 | | | | 96 | |

Questions for Further Thought, p. 204

1. Secondary school librarians, department heads, and principals have the right to initiate purchases.

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ANSWERS TO CHAPTER 6 REVIEW EXERCISES (cont.)

Questions for Further Thought (cont.)

2. *Source document: a business paper that is the original record of a transaction and is the source of the information needed to account for the transaction.*
3. *There would not be a normal source document for a transaction in which supplies were spoiled and had to be thrown out.*
4. *The statement is true. The cost principle states that assets are recorded at their cost price at the time of purchase. As prices rise, the costs in the accounts for long-lasting assets become understated. In some respects, the balance sheet of a business does not reflect its true value. This may not be a crucial concern to an ongoing business. But, if a business is being sold, the owners would have to take steps to ascertain the true market value for the assets.*
5. *When cash sales slips are spoiled, the word "VOID" should be written on all copies and they should be filed in proper sequence with their counterparts.*
6. *To the vendor the invoice is a sales invoice, but to the purchaser it is a purchase invoice.*
7. *Copies of cash slips are stored temporarily in the bottom section of the sales register.*
8. *The invoice numbers on purchase invoices are not able to be used for control purposes because the invoices come from many different companies using many different numbering systems. There is no sequence to them.*
9. *This is to prevent that person from stealing some receipts and falsifying accounting records to cover it up.*
10. *To the bank, your balance is an account payable — the bank owes you the money you have deposited. Thus, the rules of debit and credit should be applied from the bank's point of view.*
11. *The cost of an asset recorded in the accounts is not normally changed, regardless of its market value, because of the extremely large amount of work that would be necessary to make adjustments that are not likely to change the financial position a great deal. Also, how would you fairly determine the new value? How often would you have to find the new value?*
12. *Having to pay PST before it is collected is a disadvantage to business owners, but they are obliged to do it by law. At least, they have use of the government's money for a short time.*

Name _____ Date _____

ANSWERS TO CHAPTER 6 REVIEW EXERCISES (cont.)

Cases for Further Thought, p. 204

1. *The amount could be verified by speaking with the person who sold the truck or by finding the method, and thus the amount, used to pay for the truck.*
2. *Joan's action represents incorrect accounting. The cost principle dictates that the asset is to be carried on the books at its cost price.*
3. *The cost price of the equipment is \$18 000. Therefore, \$18 000 is the price at which it should be recorded in the accounts, in compliance with the cost principle.*
4. *Either the owner took out more cash than the company could afford to give up, or management entered into transactions that required spending more cash than the company could do comfortably.*
5. *The van was only ordered, not paid for. The transaction will be recorded on July 31, the day that legal title changes hands.*
6. *Correct accounting requires a document stating the fair market value of the used automobile. For used cars, this is not difficult to obtain from an automobile dealer.*

CASE STUDIES (text p. 205)

Challenge Case 1 Accounting for a Package Deal, p. 205

1. *The four accounts are: Equipment*
Land
Building
Sand Deposit (Sand Pit)
Four accounts are used because the assets have specifically different characteristics and get used up at different rates. (Depreciation, which will be studied in Chapter 9, is one of the factors.)
2. *The newly acquired assets are set up at their cost price of \$234 000, in accordance with the cost principle.*
3. *The cost price of the package can be broken down in the same proportions as the appraised values.*
4. *The cost values for the package can be worked out as follows:*